84TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 2478

AMENDING THE COMMODITY EXCHANGE ACT TO PROVIDE FOR HEDGING ANTICIPATED REQUIREMENTS OF PROCESSORS AND MANUFACTURERS

JUNE 26, 1956.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. COOLEY, from the Committee on Agriculture, submitted the following

REPORT

[To accompany H. R. 9333]

The Committee on Agriculture, to whom was referred the bill (H. R. 9333) to amend the Commodity Exchange Act to give to certain consuming processors of cotton the privilege of buying cotton futures contracts in certain cases, having considered the same, report favorably thereon with amendments and recommend that the bill do pass.

The amendments are as follows:

Page 1, line 7, beginning on line 7 strike out the remainder of the bill (through and including line 12, p. 1) and substitute:

> (C) an amount of such commodity the purchase of which for future delivery shall not exceed such person's unfilled anticipated requirements for processing or manufacturing during a specified operating period not in excess of one year: *Provided*, That such purchase is made and liquidated in an orderly manner and in accordance with sound commercial practice in conformity with such regulations as the Secretary of Agriculture may prescribe.
>
> SEC. 2. This Act shall take effect sixty days after the date of its enactment.

Amend the title to read:

> A bill to amend the Commodity Exchange Act to provide for hedging anticipated requirements of processors and manufacturers.

This bill would amend the definition of hedging for purposes of the Commodity Exchange Act. Under the present provisions of the act, hedging by a processor or manufacturer is limited to futures contracts covering not more than the volume of a commodity for which the processor or manufacturer has specific fixed price sales commitments.

Many manufacturers and processors of agricultural commodities have been in business for a period of years and are able to estimate with considerable accuracy the volume of their business during an approaching season or year. This amendment to the act will recognize this situation and permit such manufacturers and processors, under regulations promulgated by the Secretary of Agriculture, to carry on hedging operations against all or part of their anticipated requirements.

This amendment will also make the law with respect to hedging by processors consistent with the existing provision of law relating to hedging by producers (who are permitted to hedge against quantities of a commodity which they in good faith intend or expect to raise within the next 12 months).

The amendment adopted by the committee is essentially the language recommended by the Department of Agriculture in its report on the bill. The Department's recommended language was amended by the committee to make it clear that regulations issued by the Secretary with respect to the extended hedging authorized herein shall be in accordance with sound commercial practice.

At hearings on the bill spokesmen for the Department of Agriculture and numerous commodity groups appeared in favor of the legislation. There were no witnesses in opposition.

DEPARTMENT'S VIEWS

Following is the report of the Department of Agriculture recommending approval of the legislation if amended.

DEPARTMENT OF AGRICULTURE,
Washington 25, D. C., May 7, 1956.

Hon. HAROLD D. COOLEY,
Chairman, Committee on Agriculture,
House of Representatives.

DEAR CONGRESSMAN COOLEY: This is with reference to your letter of February 21, with which you referred H. R. 9333 for consideration and report.

We recommend the enactment of H. R. 9333 if amended as herein suggested.

The bill proposes to amend section 4a (3) of the Commodity Exchange Act, as amended (7 U. S. C. 6a (3)). The amendment is designed to broaden the statutory definition of bona fide hedging so as to exempt from the application of speculative trading and position limits a processor's purchase of commodity futures in an amount not in excess of his unfilled requirements for an operating season. Under the present requirements of the statute, purchases of commodity futures may be classified as bona fide hedging only if offset by fixed-price sales commitments.

We are in accord with the view that processors and manufacturers who customarily accumulate inventories in advance of fixed-price sales commitments should, subject to appropriate administrative regulations, be permitted to enlarge their use of the futures market incident to the procurement of their anticipated requirements. To accomplish this purpose, we recommend that H. R. 9333 be amended by deleting the paragraph beginning in line 7 of the bill and inserting the following:

"(C) An amount of such commodity the purchase of which for future delivery shall not exceed such person's unfilled anticipated requirements for processing or manufacturing during a specified operating period not in excess of one year: *Provided*, That such purchase is made and liquidated in conformity with such regulations as the Secretary of Agriculture may prescribe.

"SEC. 2. This Act shall take effect sixty days after the date of its enactment."

We recommend that the title of the bill be amended to read "A bill to amend the Commodity Exchange Act to provide for hedging anticipated requirements of processors and manufacturers."

We believe that the enactment of the bill would not require any additional appropriation.

The Bureau of the Budget advises that there is no objection to the submission of this report.

Sincerely yours,

TRUE D. MORSE,
Acting Secretary.

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, and existing law in which no change is proposed is shown in roman):

COMMODITY EXCHANGE ACT, AS AMENDED

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SEC. 4a. (1) Excessive speculation in any commodity under contracts of sale of such commodity for future delivery made on or subject to the rules of contract markets causing sudden or unreasonable fluctuations or unwarranted changes in the price of such commodity, is an undue and unnecessary burden on interstate commerce in such commodity. For the purpose of diminishing, eliminating, or preventing such burden, the commission shall, from time to time, after due notice and opportunity for hearing, by order, proclaim and fix such limits on the amount of trading under contracts of sale of such commodity for future delivery on or subject to the rules of any contract market which may be done by any person as the commission finds is necessary to dininish, eliminate, or prevent such burden. Nothing in this section shall be construed to prohibit the commission from fixing different trading limits for different commodities, markets, futures, or delivery months, or different trading limits for buying and selling operations, or different limits for the purposes of subparagraphs (A) and (B) of this section, or from exempting transactions commonly known to the trade as "spreads" or "straddles" or from fixing trading limits applying to such transactions different from trading limits fixed for other transactions.

(2) The commission shall, in such order, fix a reasonable time (not to exceed ten days) after the order's promulgation; after which, and

until such order is suspended, modified, or revoked, it shall be unlawful for any person—

(A) directly or indirectly to buy or sell, or agree to buy or sell, under contracts of sale of such commodity for future delivery on or subject to the rules of the contract market or markets to which the order applies, any amount of such commodity during any one business day in excess of any trading limit fixed for one business day by the commission in such order for or with respect to such commodity; or

(B) directly or indirectly to buy or sell, or agree to buy or sell, under contracts of sale of such commodity for future delivery on or subject to the rules of any contract market, any amount of such commodity that shall result in giving such person a net long or net short position at any one time in or with respect to any such commodity in excess of any trading limit fixed by the commission for net long or net short position in such order for or with respect to such commodity.

(3) No order issued under paragraph (1) of this section shall apply to transactions which are shown to be bona fide hedging transactions. For the purposes of this paragraph, bona fide hedging transactions shall mean sales of any commodity for future delivery on or subject to the rules of any board of trade to the extent that such sales are offset in quantity by the ownership or purchase of the same cash commodity or, conversely, purchases of any commodity for future delivery on or subject to the rules of any board of trade to the extent that such purchases are offset by sales of the same cash commodity. There shall be included in the amount of any commodity which may be hedged by any person—

(A) the amount of such commodity such person is raising, or in good faith intends or expects to raise, within the next twelve months, on land (in the United States or its Territories) which such person owns or leases;

(B) an amount of such commodity the sale of which for future delivery would be a reasonable hedge against the products or byproducts of such commodity owned or purchased by such person, or the purchase of which for future delivery would be a reasonable hedge against the sale of any product or byproduct of such commodity by such person**[.]***;*

(C) an amount of such commodity the purchase of which for future delivery shall not exceed such person's unfilled anticipated requirements for processing or manufacturing during a specified operating period not in excess of one year: Provided, That such purchase is made and liquidated in an orderly manner and in accordance with sound commercial practice in conformity with such regulations as the Secretary of Agriculture may prescribe.

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